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Burke, James Francis

The world's greatest bond issue viewed from a legal...

Pittsburgh

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:: THE WORLD'S :: GREATEST BOND ISSUE

viewed from a

Legal, Financial and Military Standpoint

■

Address of

HON. JAMES FRANCIS BURKE
General Counsel for the Chamber of Commerce of Pittsburgh

■

Delivered before the Chamber on April 23, 1917

■

The Reliance Life Insurance Co.
OF PITTSBURGH

Publishes this address for the benefit of its patrons in response to a widespread demand in the business world. During his many years of service on the Banking and Military Committees of Congress Mr. Burke made a special study of financial and military matters.

May 16, 1917 GJL

Address on

"The World's Greatest Bond Issue'

by

HONORABLE JAMES FRANCIS BURKE
OF THE PITTSBURGH BAR
General Counsel for the Chamber of Commerce of Pittsburgh

Delivered before the Chamber at Pittsburgh, April 23, 1917, the day the President signed the bill.

Gentlemen:

The President of the United States within the hour will sign the most notable financial measure in the world's history —the measure I am asked to discuss.

This is one of the incidents that is fastening attention upon the government and bringing about a realization of the purpose and necessity of government and the mutual duties existing between our constituted authorities on the one hand and the people on the other.

Universal obedience to law is the highest aim of mankind and as government alone can compel that obedience the necessity for the existence of sovereign states with high purposes was never more apparent or pronounced than now.

There is no privilege guaranteed by government that is not paralleled by a corresponding responsibility upon the part of the citizen. And as war imperils property and privilege alike the duty of the government to resist becomes paramount and the obligation of the citizen to make his greatest sacrifice becomes supreme. If either shirk the sacred duty that such an hour imposes then the whole structure is

shattered and a new system of social order must emerge from its ruins.

A simple question confronts the American people: Are the United States as a sovereign power worth preserving? If so the path of duty is not obscured by the twilight of doubt but it lies before us in the glorious sunlight of certainty.

Our people are learning with cruel emphasis how helpless they would be without a government to protect them in the world's present state of anarchy, and at the same time they are already beginning to feel the burdens of increased taxation and to realize the full meaning of the awful sacrifice of human life which we are soon to make on the altar of liberty.

It is a time when superficial thinking must be abandoned and profound thought find an abiding place in every American home and place of business.

The American business man is appreciating, as never before, the part the government is playing in his affairs and the part he in turn must play if we are to maintain our position and self respect among the nations of the world. On the other hand the rank and file of our citizens are realizing to what an extent our country's fate depends upon its railroads, its shipping, its industries and its finances and the great captains who marshal and direct these mighty forces of American development and progress. Out of it all will come a better understanding of the mutual duties and relations of all classes in this country toward each other.

I have been asked today to discuss one of the most remarkable financial transactions in history—the most stupendous single issue of national securities ever known. The necessity and authority for making it, as well as the possible effects upon the political, military and financial affairs of the world furnishes one of the most interesting phases of our current history, and every citizen should understand, as far as possible what it all means.

This war was not of our creation nor did we enter it because of a desire for commercial conquest, territorial expansion or boasted military supremacy. We entered it because, as a last resort, we found it imperative that we assume our full measure of the risk and our full share of the sacrifice required to compel a loftier understanding of human rights among all

nations, and above all, a respect for what we conceive to be the imperishable and indestructible rights of American citizens on every highway on land and sea.

That our nation is not overcrowded with trained soldiers and that the military spirit has never been permitted to subvert the peace loving pursuits of our civil life is a tribute to and an evidence of the real spirit of America; that great military budgets have not marked our yearly history is likewise living evidence of our innate aversion for war.

But in spite of our love of peace there will be no faltering when duty calls to arms; our manner of marshalling the forces of men and money to carry to a conclusion the war into which we have been so unjustly dragged, will leave no doubt as to the courage of the American people or the purpose of the American government.

AUTHORITY FOR LOAN.

The authority of the government to make a $7,000,000,000 loan and, by bond or other instrument, to pledge its credit, is unquestioned; but an entirely new feature is presented in the proposition which will probably be slightly changed from the original and signed by the President in a few hours, and that is the right of the United States government to invest to the extent of billions of dollars in the securities of other nations. It is an entirely new step in our history and one of the novel ones in the world's experience. Authority for it is found in the "general welfare and common defense" clause of the Constitution of the United States, and in order to come within this clause the language of the bill reads

> "For the purpose of more effectually providing for the national security and defense and prosecuting the war by establishing credits in the United States for foreign governments the Secretary of the Treasury, with the approval of the President is authorized to purchase, at par, of foreign governments then engaged in war with the enemies of the United States, their obligations hereafter issued, containing the same terms and provisions as those issued hereunder."

You will observe that the issue is justified and based upon the necessity of "prosecuting the war" and is in fact a "war measure" and therefore clearly within the authority of Congress, acting under the clause authorizing it to provide for the "general welfare, and common defense" of the nation.

METHOD OF ISSUING.

There are two distinct classes of securities provided for; and in fact three classes of securities that are affected.

The present bill provides for the issue of $2,000,000,000 of certificates of indebtedness, payable in one year, with interest not to exceed 3½ per cent; $5,000,000,000 of 3½ per cent bonds in such denomination and payable in such manner as the Secretary of the Treasury, with the approval of the President, may determine; and it also provides that $472,000,000 of bonds heretofore authorized, but never issued, shall be issued on the same terms and at the same rate of interest as the $5,000,000,000 issue, otherwise the latter could not be sold successfully in competition with those bearing the higher interest rate.

The $2,000,000,000 derived from the sale of the certificates is to be used in payment of current government expenses and repaid out of taxes to be collected during the coming year. Aside from all these obligations we had, at the beginning of this year, an interest bearing debt of $973,000,000. Add all these issues together and you have a total interest bearing debt of $8,445,000,000 or eliminating the short term certificates to be paid during the year you have $6,445,000,000 of a debt remaining.

Of the $5,000,000,000 of bonds so issued $3,000,000,000 of them are to be turned over to other governments at war with Germany, in exchange for their bonds for a like amount and bearing a similar rate of interest. The remaining $2,000,000,000 to be derived from the bond sale are to be applied to our war activities.

In order not to do an injustice to the other issues and to provide for and make possible their sale on equal terms, the bill provides that $472,000,000 of bonds heretofore authorized for Spanish war, Panama Canal, Danish West Indies, Alaskan

railroads and other purposes, but not yet sold, shall be issued on like terms and at the same rate of interest as the new $5,000,000,000 bond issue. The reason for this is that there would be no demand for the first issue in the face of the higher interest on the second.

While this seems to be a stupendous indebtedness to be suddenly contracted for it is admitted that if the war lasts over a year, it will be but a forerunner of much greater and heavier obligations.

SECURITY BACK OF IT.

At first the apprehension of many people was aroused by the thought of inadequate security but the history of the world's bond issues and of those of our own country will disclose the fact that this issue will be among the very healthiest and sturdiest of national securities.

At the close of the Civil War our bonded indebtedness was $2,381,000,000 while our population was 34,000,000. Under the present issue, assuming that we will get securities from other governments in return for $3,000,000,000, our total bonded interest bearing debt would be $3,445,000,000 with a population of 103,000,000.

At the close of the Civil War the wealth of the United States was $30,000,000,000 or $779 per capita. At the present time our wealth is estimated at $263,000,000,000 or $2600 per capita. Thus it will be seen that the bonds about to be issued will have nearly four times the security value of the great bond issue at the close of the Civil War, the remnants of which still remain the best national security in the world.

As a matter of fact a five billion dollar bond issue would not even scratch the surface of the great wealth of this country.

America's financial position was never more impregnable.

During the last three years our gold holdings have increased 57 per cent., from $1,900,000,000 to approximately $3,000,000,000.

In addition we have already strengthened our position by repurchasing our own industrial and other securities held abroad and making foreign loans aggregating $5,000,000,000.

Furthermore, we have, under the new Federal reserve system, a complete co-ordination of the nation's banking reserves.

AN UNSELFISH OFFER.

A more unselfish financial transaction between great nations was never known in history. In fact the aim of the government has been to stamp it as much as possible with patriotism and good will on our part towards all the nations with whom we have made a common cause in this war.

In some of the bond issues floated by Great Britain for the Allies it was provided that the proceeds should be expended in Great Britain, but in the present case the allied governments who will receive the proceeds are at liberty to spend the money in whatever place or manner they deem proper.

Another unique feature in this bond issue provides that if at any time before the end of this war the United States government issues bonds of any character at a higher rate of interest than 3 1-2 per cent. the interest rate on the present bonds automatically are to be raised to the higher rate. Furthermore, if the United States government increases the rate of interest on its issue of bonds, a contract is to be made with foreign governments that they likewise are to increase the rate of interest on the $3,000,000,000 we already hold of theirs.

A contract of this character can be enforced, and enforced only, by war against a sovereign power.

If this bond issue were to be viewed from the standpoint of a mere commercial proposition it would undoubtedly not be regarded as an inviting one for the United States, but in the interest of candor, and not by way of criticism, it is well to understand the facts relating to the real character and intrinsic value of the bonds we will issue and those we will receive in return.

DIFFERENCE IN BOND VALUES.

The present bonds of the United Kingdom of Great Britain and Ireland, bearing 5 per cent. interest, have been

selling on the market for 95 per cent. of their face value, while the bonds of Russia, bearing 5 per cent. interest, have been selling as low as 54 per cent. of their face value.

If the bonds of these governments bearing 5 per cent. interest are selling so far below par, what will their new issues of bonds with an increased volume of indebtedness before them and a decreased rate of interest behind them bring in the markets of the world?

That England's bonds would probably bring 85 cents on the dollar, while Russian bonds would probably bring 45 cents on the dollar, seems to be the opinion of conservative financiers and economists, unless the entrance of the United States into this great world war should have a stimulating effect upon the securities of her allies.

NECESSITY.

I mention this in passing to show, first, our unselfishness, and secondly, the existence of an absolute necessity for this bond issue and others that may follow, to enable the great nations that are bearing the brunt of this war to maintain their credit before the world.

Already the credit of all the nations of the old world is impaired by the inflation produced by bond issues heretofore made.

Great Britain, France, Russia and Italy have issued $37,000,000,000, while Germany, Austro-Hungary, Turkey and Bulgaria have issued $16,000,000,000. This represents an expenditure of 53 billion dollars aside from the billions derived from all sources of taxation and expended by the countries involved as the war progressed.

If the credit of the allies should by any chance fail them in this crisis the consequent burden upon the American people would be hard to measure in the future loss of men and money.

Another immediate necessity is found in the fact that our government expects to secure, through taxes from all sources during the coming year, including the excess profit, tax not more than $1,237,000,000, unless radical increases

are made in tax measures. Every dollar of this will be needed to cover the ordinary expenses of the government, wholly independent of our military activities which will require nearly $2,000,000,000 in addition.

We have been informed by the Secretary of the Treasury that for the coming fiscal year for the army alone approximately $2,950,000,000 will be required and $550,000,000 more for the navy than was voted in the last Congress. This will mean nearly $3,500,000,000 and as it costs the government fully $100,000,000 more to run the government in time of war than in time of peace, we will be confronted with nearly four billion dollars of extra expense for the year ending June 30, 1918.

VAST EXPENDITURE OF WAR.

The allies have practically spent eighty billion dollars of their wealth in the present war.

During the Winter 200,000 of their men were numbered among the captured, wounded and dead that marked the bloody story of every passing month.

Belgium disarmed and prostrate, the pity of the world; Russia with her 170 scattered millions witnessing the struggles of an infant Democracy to survive the vicissitudes of war from without and the lingering effects of revolution from within; France drenched in blood and England dependent upon other lands for the bread of life upon which her men and women at home and her soldiers in the fields must feed—all these present in their combined adversities and sacrifices a picture that cannot but appeal to every American citizen today.

THE END NOT IN SIGHT.

Let us not indulge in idle delusions regarding the enemy's strength nor overlook the peculiar advantage of her well fortified position in this war.

Germany's population is 70,000,000 and Austria's 60,000,000 together with Bulgaria and Roumania they comprise the richest section of the world. The field of their main

operations is continuous and compact. Germany is yet to lose a single battle on her own soil.

By their railroad, industrial and scientific development they can handle soldiers and supplies and transport them from one base to another with an ease impossible upon the part of any other of the nations at war.

THE HELL-BORN SUBMARINE.

While her navy is bottled up, that hell-born instrument of modern warfare, the submarine, has been sending 500,000 tons of shipping to the bottom of the sea with the passing of each month while the "Mistress of the Seas" and her great navy seem helpless to prevent that particular form of ruthless and widespread destruction.

Hope as we may for an early victory, let us not forget that nine out of every ten ships attacked by a submarine have gone down beneath the waves. To replace this lost tonnage will be one of the herculean tasks of America.

EFFECT ON OTHER SECURITIES.

Realizing that the new bonds and certificates bear 3½ per cent interest and are free of all taxes except estate and inheritance taxes, bankers have asked what effect they will have on the $643,000,000 of two per cent U. S. bonds now outstanding and held by the 7500 national banks of the country. The best authorities are inclined to agree, however, that it will not affect these in the least because the new issue of certificates and bonds are both deprived of the circulation privilege under the Act, leaving the old $643,000,000 issue undisturbed in its value as a basis for circulation issue.

Nevertheless, prudent business men everywhere will doubtless keep in mind that this unprecedented increase of securities will have a dangerous tendency in the direction of inflation.

Another feature of this great bond issue not to be ignored is the possible effect on our American industrial securities.

Nothing is so attractive to the great body of conservative investors as a government bond. Add to the government en-

dorsement an agreement to pay in gold coin with interest at 3 1-2 per cent. and in addition make it exempt from all but estate and inheritance taxes, and you have one of the most alluring propositions in our financial history.

How many people will dispose of other securities to invest in these government issues is difficult to determine, but the possible effect on the stock and bond market is not to be overlooked.

If investors dispose of large quantities of one class of securities to acquire another the economic disturbance might be serious indeed.

Until we abandon specie payment on a gold basis and in proportion as these vast issues of securities exceed the supply of gold money will become cheap by inflation and prices will soar to dizzier heights than ever, and in the final readjustment disaster can be averted only by the far sighted plans of prudent and patriotic leaders in the industrial, commercial and political life of America.

In this connection, the words of the President in his message to Congress should be kept in mind:

> "I must respectfully urge that it is our duty to protect our people against the serious hardships and evils of inflation produced by vast loans."

Some government securities are apparently issued with no intention of redeeming them, and yet they retain their value.

The British people are still paying interest on bonds issued during the American revolution.

If the present war lasts another year it is expected to leave a bonded burden of 76 billion dollars upon the part of those involved.

Our own national taxation burden will be added to and as a consequence of it all the American people will have more reminders than ever that government costs money, and let us hope they will follow this by more minute attention to public affairs.

But however great our financial burden may be let no one conceive the notion that the United States has descended to the thought of a money purchased victory. She would scorn a triumph in which she evaded a single responsibility no matter what the cost in blood or treasure.

WHO IS GOING TO PAY?

Another practical proposition that confronts you gentlemen here today, because Congress is going to seek the opinion of the country, is how is this and other obligations of a similar character to be paid.

Aside from the principal debt there is an added interest charge against our government of approximately two hundred million dollars annually.

Shall the present and the immediate future generations pay only the interest and leave the principal burden to be born by posterity?

Shall we pay as we go and place the entire burden on the present generation or shall we compromise by paying half ourselves and leaving the remaining half to be borne by those who follow us? Furthermore, with every commodity and commercial activity taxed to the verge of ruin today, where are the new burdens to fall? It is time to think if not to act in solving this problem. There is hardship in either event. One generation never feels kindly toward a former one that bequeaths it such a burden.

On the other hand, should we give up the lives and the treasures of today to free the future of any share whatever in the sacrifices that mark the emancipation and the elevation of the human race?

Such, gentlemen, are some of the problems to be solved and solved now.

If the leading actors and thinkers in the busiest and richest of the world's centers are to pass these questions by who then is to answer them, and who, if they are not answered wisely, will be to blame for the consequences that follow?

OPPORTUNITY OF A CENTURY.

But thrusting all other considerations aside, America has one plain duty before her today. The value of the friendship and service of Russia in a trying hour of our career cannot be measured in current coin.

What France did for America in the most critical days of our history will abide forever as one of the most generous and inspiring chapters in the annals of the world.

With a pen that had for months become accustomed to picture the adversities and at times the threatened hopelessness of the revolutionary cause, Washington on April 9, 1781 wrote these words:

> "If France delays this timely and powerful aid in the present critical posture of our affairs it will avail us nothing should she attempt it hereafter. We cannot transport provisions from the farms to the troops because we cannot pay teamsters who will no longer work for certificates."
>
> "Our troops are approaching fast to nakedness. Our hospitals are without medicine and our sick without meat except such as well men eat. All our public works are at a standstill and the artificers are disbanding. In a word, we are at the end of our tether and now or never our deliverance must come."

These were the words that rang in the ears of John Laurens, Silas Dean and Benjamin Franklin whom Washington had sent to plead for money at the Court of France.

HOW FRANCE REPLIED.

How France responded the world too well knows to require detailing here. Suffice it to say we did not plead in vain.

At a time when it required $150 of American money to buy a bushel of corn and $2,000 of American money to purchase a single suit of clothes, France poured out of her treasure house $50,000,000 into the lap of suffering and starving America.

She furnished us with two dollars for every man, woman and child in France and accepted a security so precarious that the world smiled in derision.

On that debt she remitted every dollar of interest and presented us several million dollars besides. And that at a time when a million looked like a billion today.

Furthermore, to aid us in our struggle, France expended from $400,000,000 to $700,000,000 in the equipment and conduct of her army and navy actually engaged in fighting our cause.

Think of it, my countrymen! When our young Republic seemed to be making a quick and certain journey from the cradle to her grave; when Washington saw the dreams of the ages about to be shattered and his newly born nation facing the very shadow of the valley of death, the colors of France were seen above the horizon and her gallant ships and 48,000 of her more gallant sons under DeTiernay, DeGrasse, Rochambeau and Lafayette marched and sailed and fought as brothers in blood for the triumph of the world's last and noblest experiment in government.

When Cornwallis surrendered at Yorktown there were lined up in battle beside the 5500 regular American troops, 7000 gallant fighting sons of France.

What they immortalized by their deeds that day the Continental Congress commemorated in October 1781 by providing for the erection of that monument to French and American soldiers, whose marble outlines cast their sacred shadows over the waters where the French fleet under DeGrasse and the French troops under Rochambeau lowered the colors of England and raised the never fading banner of the American Republic.

It is that same France that we behold today in her agony and her glory. It is that same France whose home is invaded, whose liberty is threatened, and whose very life hangs in the balance. It is that same France where the peaceful dreams of a happy and contented people have been shattered by shot and shell that spell sacrifice and suffering by day and a nightmare of blood when the stars look down upon the distorted features and mangled bodies of her dead.

It is that same France whose hills and valleys bore the beautiful burdens of vine and flower that twined and blossomed under the happy vision of yesterday but where the red stain of blood and the black stain of death combine to paint the picture of a living hell today.

What forsooth shall be America's answer to the call of the French people in such an hour?

Let is be one that will broaden, ennoble and inspire humanity. Let it be one that will crush autocracy and enthrone Democracy throughout the world. Let it be one that will prove to the world that we have emerged from the sheltered valley of selfishness where we have been dwelling amid the sordid dreams of a false security and that we stand once again with our forefathers upon the mountain top from which an unvexed view of our highest responsibilities is spread before us as the ignoble things of life are lost in the mists that shield the miserable jealousies and all the petty conflicts of the valley below.

Whatever the sacrifice necessary for the permanant establishment of the fine humanities for which we stand, may the God of Peace or the God of War, as the case may be, prompt the heart and steel the hand of America to do her full duty as the foremost champion of human rights now that the time piece of the centuries has struck the hour of duty.

And when the last chapter of this titanic struggle is written, let our conquering boys return to the realms of peace crowned with wreaths of gratitude and victory woven from the evergreens of Russia, the roses of England and the lilies of France.

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